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DE RUEHEG #2062 2651414
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P 211414Z SEP 08
FM AMEMBASSY CAIRO
TO RUEHC/SECSTATE WASHDC PRIORITY 0517
INFO RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY

UNCLAS CAIRO 002062

SENSITIVE
SIPDIS

DEPT FOR NEA/ELA
TREASURY FOR BEN DENNIS AND CHARLES MORAVEC
COMMERCE FOR TOM SAMS AND NATE MASON

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [EG](#)
SUBJECT: INFLATION STILL A WORRY FOR THE EGYPTIAN CENTRAL
BANK

¶1. (U) Summary: The Central Bank of Egypt (CBE) raised key lending and deposit rates by 50 basis points on September 18. Year-on-year inflation was 25.5% in August, and the latest move by the CBE reflects its worries over continued inflationary pressure on the economy, even as it noted that food price increases appear to be slowing. Ramadan price increases along with increases in educational fees are expected to lead to another month of rising inflation in September. Local analysts expect inflation to slow from the fourth quarter into 2009. End Summary.

¶2. (U) On September 18, the Monetary Policy Committee of the Central Bank of Egypt (CBE) raised key overnight lending and deposit rates by 50 basis points to 13.5% and 11.5% respectively. The CBE also raised the discount rate by 50 basis points to 11.5%. The latest rate hikes mark the sixth time this year the CBE has raised rates, for a total increase of 275 basis points since January.

¶3. (U) The CBE action comes a week after the GOE released August inflation figures which showed yet another marked increase in the CPI. The official Egyptian government statistical agency, CAPMAS, reported a year-on-year CPI increase of 25.5% in August, compared to 23.1% in July. Food inflation, though increasing at a slower rate than in previous months, was a significant contributor to the increase. (Note: Food prices, in particular, tend to rise during Ramadan and the weeks leading up to it. Ramadan began on September 1. End note.)

¶4. (U) In its statement, the CBE noted that prices had risen more slowly for basic food products as a result of lower international commodity prices, the temporary ban on rice exports imposed in the spring, and removal of certain food import tariffs, though it noted that retail prices tended to be rigid and had not yet reflected lower costs. The CBE said that non-food inflation continues to be high.

¶5. (SBU) Comment: The next meeting of the Monetary Policy Committee of the CBE will be November 6. Local economists suggest further rate hikes may be in the cards. The government is expected to report an additional increase when it reports September's CPI as further increases in food prices along with higher prices of education fees and butane gas (used in home heating and cooking) are reflected. Inflationary pressures are expected to ease in the fourth quarter of 2008 and the first quarter of 2009, which should bring an end to this phase of central bank tightening. Analysts expect inflation for 2008 to average 20%.
SCOBAY